

May 2006

Dear Clients & Friends:

It is time again to provide you with insights on personal finance and to update you on developments with our practice.

New Tax Bill

On May 17th President Bush signed several tax provisions into law. The bill primarily covers three areas: capital gains and dividend rates, the alternative minimum tax (AMT), and Roth IRAs.

- **Extension of Reduced Capital Gains and Dividend Rates.** The provision will extend the top 15 percent rate on long-term capital gains and dividends for another two years, through 2010. Thereafter the rates are scheduled to revert to a top rate of 20 percent for long-term capital gains, and one's regular income tax rate for dividends.
- **AMT Relief.** The tax, which is not automatically adjusted for inflation, is affecting more and more middle-income taxpayers, including retirees. The new law mitigates this effect temporarily. In 2006, new AMT exemption levels will be \$42,500 for single filers and \$62,550 for joint filers, up from \$40,450 and \$58,000, respectively. The AMT will revert to much lower exemptions in 2007 if not further extended.
- **Expanded Roth IRA Conversions.** The most controversial provision will allow all taxpayers, not just those with modified adjusted gross income of \$100,000 or less, to convert their traditional IRAs to Roth IRAs in 2010. The merits of doing so will depend on one's current income tax rate, anticipated income tax rate in retirement and whether one can pay the upfront taxes on the conversion with money outside the Roth. Please keep in mind that annual Roth contributions will still be subject to the income ceilings of \$160,000 for married couples and \$110,000 for singles.

Debit vs. Credit Cards

Choosing the right card depends on one's personal financial situation and money management style. If used wisely, you can save significant amounts on transaction fees with either card. Unfortunately, not many credit and debit card providers supply consumers with sufficient information to minimize such fees. Credit cards have a straight-forward fee structure: if balances are paid in full every month, there are no fees charged to a consumer. Debit cards have a more complex method of assessing fees.

The first thing to know is whether you have an "on-line" or "off-line" debit card. "On-line" debit cards are usually enhanced ATM (automated teller machine) cards which work the same as they would in an ATM transaction. It is an immediate electronic transfer of money from your bank account to the merchant's bank account using a selected PIN number. "Off-line" debit cards resemble a credit card transaction. The merchant's terminal reads your card and creates a debit against your bank account. However, instead of debiting your account immediately, it stores the debit for processing later -- usually within 2-3 days.

Many banks include on-line and off-line features in one card. If your card handles both off-line and on-line debits, and the store accepts both, you can choose the appropriate function when you use the card. If you choose "debit" on the merchant's terminal and "swipe" your card through, the transaction will be done on-line and you will be asked for your PIN. In this case a transaction fee may be posted. If you choose "credit" on the terminal and swipe your debit card through, the payment will be off-line and you will be asked to sign the sales slip. Usually banks don't charge for signature transactions on either type of card.

A PIN-based transaction may be better to use if you need cash. An ATM withdrawal from a non-participating bank will generally incur transaction fees of \$1.50 or higher. Instead of making a cash withdrawal, if you make a PIN-based purchase with your debit card and request cash back, you may be able to save on fees. No matter which card you have, you should familiarize yourself with your bank's fee policy. Finally, to minimize liability exposure, avoid using your debit card for internet purchases.

Potential Problems with Automated Payments

Many creditors and financial institutions offer their customers an automatic payment option as a convenient way to pay bills. Vendors and service providers can either charge their customers' credit cards or periodically withdraw an authorized amount directly from their bank accounts. For all the obvious reasons – convenience, savings on postage, avoiding late fees, and earning award points with some credit cards – a growing number of consumers have embraced this option.

Unfortunately, many are unaware of the hurdles of automated payments when a consumer wishes to stop the service. The Better Business Bureau is receiving more complaints from consumers who experience difficulties with discontinuing the automated payment option. Because merchants and financial institutions have their own procedures, consumers often find it hard to follow all the rules. In addition, banks and creditors are often unable to stop the payments if a merchant for any reason fails to comply with the consumer's request.

While many national merchants and credit card companies have upgraded their systems for automatic payments, paying bills online using your bank account might be a better alternative until a standardized procedure for cancelling payments is established.

PFPG News

In this issue we have news to report on everyone at PFPG!

For the 8th year in a row, Brian will be supporting the American Lung Association of Maine by participating in the three-day Trek Across Maine bicycle ride. The ride covers approximately 180 miles, from Sunday River Ski Resort in Bethel to the Owls Head Transportation Museum near Rockland. It is held annually on Father's Day weekend in June.

To learn more about American Lung Association of Maine or to sponsor Brian for this good cause, visit the link posted on www.pfpg.com, in the "Community Involvement" section.

If you subscribe to Money magazine, please take a look at the "Getting a Jump on Retirement" article in the May issue. Tom was invited to provide a portfolio makeover to a Maine family. You will find a link to the article on our website under the heading "PFPG in the News." For a print-out of the article, please contact our office.

March 28th was a one-year anniversary for Marina's arrival at PFPG. Besides learning about all facets of the financial planning process, Marina has been sharing her knowledge and experience in bringing our firm's marketing efforts to the next level.

Be on the lookout for PFPG ads in DownEast, Portland, and Bowdoin magazines. This summer we will also be enhancing our website's structure and content. If you have any suggestions or wish to see particular topics posted, please e-mail us at info@pfpg.com.

We wish you all an enjoyable summer!



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